

IRS News Release

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IRS and Treasury Change Reporting for Certain Transactions with Significant Book-Tax Differences

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WASHINGTON – Internal Revenue Service and Treasury officials announced today the elimination of a class of reportable transactions involving significant book-tax differences. Officials took this action after a new return schedule for large businesses made separate reporting unnecessary, while continuing to ensure that these transactions will come to the attention of the IRS.

Taxpayers are required to disclose to the IRS their participation in reportable transactions to the IRS. In certain cases, taxpayers' advisors are also required to disclose their involvement with reportable transactions to the IRS and to keep lists of participants in those transactions. The reportable transaction rules aim to increase transparency by ensuring that the IRS learns of potentially abusive transactions before these transactions are uncovered in an examination.

Under existing rules, one of the six categories of reportable transactions involves transactions that have a greater than \$10 million difference between financial reporting and tax reporting. In 2004, the IRS released Schedule M-3 to be used by corporations with total assets of \$10 million or more that file Form 1120 corporate income tax returns. This new schedule provides detailed information to the IRS on transactions with significant book-tax differences. In December 2005, the IRS released draft versions of Schedule M-3 applicable to certain other entities with assets of \$10 million or more. When finalized, these new versions of Schedule M-3 will be applicable for the 2006 tax year.

After a review comparing reportable transaction submissions and the information being provided on Schedule M-3, the IRS and Treasury Department have concluded that the book-tax difference category of reportable transactions is no longer necessary. Notice 2006-6, released today, eliminates the book-tax difference category of reportable transactions.

Regulations are currently being drafted to reflect recent statutory changes to the disclosure regime. In that context, the IRS and Treasury Department are working to make adjustments to the disclosure rules to ensure that they are properly targeted. The IRS and Treasury Department remain committed to making sure that the disclosure regime provides meaningful information without imposing undue burden.